



OFFICE OF THE CITY AUDITOR

Leslie I. Tanaka, CPA, City Auditor

POWERS, DUTIES AND FUNCTIONS

The Revised City Charter amendments, approved by the voters in the November 2002 General Election, authorized the City Council to establish the Office of the City Auditor (OCA) as a separate and independent agency to strengthen the auditing function in City government and ensure that the agencies and programs of the City are held to the highest standard of accountability to the public (Sec. 3-501.1, RCH). The Charter affords the auditor the independence to initiate work under the auditor's authority and to consider requests for work from the Council. In addition and for the purpose of carrying out an audit, the Charter empowers the auditor to have full, free, and unrestricted access to any City officer or employee and grants authorization to examine and inspect any record of any agency or operation of the City.

The Charter further provides that the City Auditor conduct or cause to be conducted: 1) the annual financial audit of the City, 2) performance audits of the funds, programs, and operations of any agency or operation of the City, and 3) follow-up audits and monitoring of compliance with audit recommendations by audited entities. All audits are conducted in accordance with government auditing standards and audit findings and recommendations are set forth in written reports of the City Auditor.

The Office of the City Auditor was created on July 1, 2003, with the appointment of Mr. Leslie Tanaka, CPA, as the City and County of Honolulu's first independent City Auditor.

OCA'S MISSION

The Office of the City Auditor's mission is to promote accountability, fiscal integrity and openness in City government. The Office of the City Auditor will examine the use of public funds, evaluate programs and activities, and provide timely, accurate and objective analyses, options and recommendations to decision makers in order to ensure that the City's resources are being used to effectively and efficiently meet the needs of the public.

YEAR IN REVIEW

The second year of operation for the Office of the City Auditor was one of growth and challenges. Through Council's support and approval of funds for additional staff in the City Auditor's budget, we successfully recruited and hired four performance auditors. These four new staff auditors have varied academic background and professional experience in performance auditing, government, law and technology-useful for the type of auditing we do of the City's diverse operations and programs. Due to their experience, our new staff auditors were immediately assigned to work on our planned audits, and contributed much to the successful completion of all of our work product goals for the second year in a row.

Having eight staff members working out of office space designed for four was challenging. The auditor's request for additional space brought forth various suggested new locations, including loft space in Kapolei Hale, near Honolulu Hale and in Chinatown. In April 2005, the office was relocated to larger quarters on the first floor of Kapolei Hale. This move was welcome news for the office staff, especially those who live in the Central and Leeward communities of O'ahu.

SUMMARY OF REPORTS TO COUNCIL AND MAYOR

With the additional audit positions that council provided to our office, we were able to issue four performance audit reports-meeting our work goals as proposed in our Work Plan for FY2004-05. The four reports are: 1) Audit of the City's Sole Source, Emergency, and Professional Services Procurement Practices, 2) Audit of Selected Management Issues of the Honolulu Liquor Commission, 3) Audit of the City's Road Maintenance Practices, and 4) Review of the Costs of the City's Brunch on the Beach, Sunset on the Beach and Rediscover O'ahu Programs. These audits identified inefficient and costly practices, violations of state law and City policies, misuse of City staff and resources, significant information not previously reported to City Council or the public, and potential cost savings through proper stewardship of City funds. In addition, we continue to oversee the financial audit of the City, which resulted in findings and recommendations for the fiscal year ended June 30, 2004, by Pricewaterhouse Coopers LLP, the contract auditor. All of these reports are available to the public on the Office of the City Auditor's web page (www.honolulu.gov/council/auditor).

Financial Audit of the City and County of Honolulu for FY2003-04

PricewaterhouseCoopers, LLP submitted its findings and recommendations for the financial audit of the City and County of Honolulu for FY2003-04 to the City Council in March 2005. Their findings included: delinquent filing of the March 31, 2004 Report of Disadvantaged Business Enterprise (DBE) Awards and Commitments; missing applicable housing choice vouchers, which verify tenants' eligibility for Section 8 housing assistance; and inappropriate listing of reconciling items between the City's book balance

and the bank balance. In addition, the Department of Housing and Urban Development's (HUD) Honolulu Office of Public Housing conducted a follow-up Rental Integrity Monitoring review of the City's Section 8 Housing Choice Voucher Program's tenant files. Findings included: improper calculations to determine housing assistance payments or tenant rent; improper transfer of data from the tenant file to the HUD-50059, Family Report, and to the Multifamily Tenant Characteristics System; non-utilization of the Quality Control Plan to monitor program compliance in tenant files; and incomplete and missing documents in certain files.

Furthermore, the auditors found that the Federal Transit Administration (FTA) performed a Triennial Review of the City's FTA funded program and issued a report which included the following findings: inconsistent reporting on Milestone Progress Reports (MPRs); failure to notify the FTA of all change orders in excess of \$100,000 on its MPRs during the review

period; no documentation that the City had ever sought or received FTA approval to lease a portion of the Kalihi-Palama bus facility to the Oahu Transit Services Credit Union; lack of monitoring of contractors to ensure that DBE obligations were fulfilled; failure to perform separate pre-award and post-delivery Buy America audits and certifications related to two option orders under a single bus procurement; unquantifiable or insufficient service standards and policies for assessing Title VI compliance; failure of the City's Americans with Disabilities Act (ADA) policies and procedures for FTA-funded services to meet ADA requirements; and lack of documentation that the private operator of a city trolley service had a Drug and Alcohol Policy/Program for its safety-sensitive employees that conformed to FTA regulations.

It was also reported that five of the eight findings from the previous year's audit have been resolved. The other three findings were still applicable in the FY2003-04 audit. In addition, three out of six findings from FY1999-2000 through FY2001-02, which were reported as still applicable in the previous year's audit, were resolved in FY2003-04. The remaining three findings for that time period were still applicable in the FY2003-04 audit.

Audit of the City's Sole Source, Emergency, and Professional Services Procurement Practices

This audit was initiated by the City Auditor due to longstanding concerns about the City's procurement practices in awarding contracts for construction, goods, and professional services. The audit assessed the City's use of sole source, emergency, and professional services procurement methods in accordance with the Hawai'i Public Procurement Code. We found that although the



\$733 litter receptacle purchased by the city.

Purchasing Division has implemented improvements to make the City's procurement operations more efficient, the City's lax oversight and enforcement has allowed departments to bypass competitive procurement methods, resulting in higher costs for goods and services, and reducing available funds for other City programs and activities. Certain sole source contracts violated the state procurement code and City policies. Our tests indicated a pervasive level of inappropriate sole source approvals, including the improper sole source purchase of 990 litter receptacles using nearly \$700,000 in capital improvement funds. Had the department sought competitive bids, the City could have easily saved taxpayers an estimated \$300,000.

We recommended that the City's chief procurement officer require the City to procure goods and services through competitive means that meet the agency's need and saves taxpayers' money; ensure that sole source procurement approvals comply with the State procurement code and city policy; require compliance with the City's debt and financial policies when purchasing equipment with Capital Improvement Program (CIP) funds; initiate the practice of electronically posting the City's sole source, emergency, and exempt notices, agency justification forms, and awards; ensure that approvals granted for emergency procurement meet the statutory requirements of a threat to health, safety, welfare or life; and seek guarantees for the work when procuring goods, services or construction for emergency procurements via purchase orders since purchase orders provide limited protections compared to the safeguards in formal contracts. In light of ad

hoc restrictions placed by the department upon our office during this audit, we also recommended that the City Managing Director inform and require city agencies to comply with the City Charter requirement that authorizes the City Auditor full, free, and unrestricted access to City employees and agency records during an audit.

Audit of Selected Management Issues of the Honolulu Liquor Commission

This audit was conducted pursuant to Council Resolution 03-223, which requested that the City Auditor review the investigative and enforcement functions of the Honolulu Liquor Commission. We reviewed the commission's organizational structure and personnel management practices, which are essential to effective management and the fulfillment of the commission's responsibilities. We found that the oversight and management of the Honolulu Liquor Commission was inadequate, and ineffective personnel policies and management, coupled with the negative perception of commission management, has hampered the agency's small but hard-working staff.

We recommended that the commission work proactively with the liquor control administrator to adopt specific goals and objectives for job performance; ensure that senior management takes steps to implement effective open management and communication practices; initiate actions to assess the concept of creating an adjudication board separate from the commission; propose charter

amendments to re-classify the administrator position as an excluded class position; study the feasibility of transferring liquor enforcement investigatory responsibilities to the Honolulu Police Department; and review the commission's auditing of licensees and allocation of funds from liquor violation fines by the Department of Budget and Fiscal Services' Internal Controls Division. We also recommended that the Liquor Commission direct the liquor control administrator to ensure the development and implementation of consistent and documented training programs for new commissioners; complete a staff reorganization plan within an agreed upon time frame; and take all necessary steps to fill the vacant deputy administrator position. We further recommended that the liquor control administrator work proactively with the liquor commissioners to identify and fill necessary vacant positions; ensure that administrative directives and other policies and procedures are reviewed and updated; implement an internal affairs review process; and ensure that budget preparation guidelines accurately reflect the commission's fiscal self-sustainable position. Finally, we recommended that the mayor should ensure that liquor commissioner nominees fully understand the requirements, ethical obligations and workload time demands implicit in accepting a nomination; and quickly and thoroughly review questions concerning the behavior of appointed commissioners.

The Honolulu Liquor Commission and commission administration stated they accept and will undertake each of the recommendations in our audit report.

Audit of the City's Road Maintenance Practices

This audit was initiated by the City Auditor as provided in the Revised City Charter of Honolulu. The City Auditor selected the City's road maintenance practices for review because of the public's concerns regarding the poor conditions of City-owned roads. The audit assessed the effectiveness of the Department of Facility Maintenance's Division of Road Maintenance in meeting its responsibilities and also assessed the decisions made by, and the influences of, entities outside the division that have impacted road maintenance operations. We found that inefficiencies within the division and lack of support for road maintenance initiatives contributed to the City's poor road conditions. In addition to internal shortcomings, the division was adversely impacted by outside influences, such as budget constraints imposed by the administration or Council, policies that prevented the division from conducting in-house road resurfacing, and the deployment of road maintenance division employees to spend a total of 5,643 hours from 2002 to 2004 assisting with city functions such as Brunch on the Beach and Sunset on the Beach.



A road repair crew conducts maintenance work on Kilaha Street in Ewa Beach.

We recommended that the Department of Facility Maintenance assess and pursue funding for essential vacant positions; implement Web-based technology to educate the public about road maintenance issues and solicit pothole complaints; develop a technology integration plan with other appropriate City and State agencies that utilize Geographic Information Systems (GIS) programming; and improve record keeping, reporting and retention. We also recommended that the Division of Road Maintenance adopt key industry best practices for its road maintenance program; eliminate "poor" industry practices; prioritize and consistently conduct annual pavement condition surveys; develop a comprehensive work order system; draft policies and procedures for road maintenance applications; and conduct in-house road resurfacing.

Review of the Costs of the City's Brunch on the Beach, Sunset on the Beach and Rediscover O'ahu Programs

This audit was initiated by the City Auditor pursuant to the Revised Charter of Honolulu. The City Auditor selected this review because of ongoing concerns expressed by the City Council and the public regarding the total cost of the Brunch on the Beach, Sunset on the Beach, and the Rediscover O'ahu programs. This review examines City expenditures for, and total costs of, the City's Brunch on the Beach, Sunset on the Beach and Rediscover O'ahu



Photo of Sunset on the Beach program in Waikiki.

programs for the period July 2001 to December 2004. We found that the City's cost for these programs have been grossly underreported to the City Council and taxpayers; costs could not be completely and accurately determined due to inadequate tracking of program costs; and nearly all program documents and reports, including program costs from FY2001-02 through December 2004, are missing from the offices under the Mayor's and the Managing Director's span of control. While the City disclosed total program costs of \$2,072,020, City departments reported costs of at least \$4,527,205. We also found that at least half of all participating agencies were omitted from City administration reports.

We recommended that the Office of the Managing Director provide the Council and the public with a complete and accurate reporting of the City's Brunch, Sunset and Rediscover expenditures; establish and monitor compliance with policies and procedures for agencies to identify, capture, track and report expenditures for these programs; and ensure agency compliance with record retention guidelines and safeguarding of documents and reports, including the transition period between changing City administrations. We also recommended that the Department of Budget and Fiscal Services establish accounting methods and procedures for departments and agencies to completely and accurately identify, capture, track, and report Brunch, Sunset and Rediscover expenditures.

FY2004-05 APPROPRIATIONS AND EXPENDITURES

The Office of the City Auditor (OCA) was appropriated a total of \$892,496 in FY2004-05. Of this total, \$360,000, or 40 percent, was expended for the City's annual financial audit contract, which OCA oversees for the Council. In addition to the four positions from the previous fiscal year, funding for an additional four positions was appropriated for in FY2004-05, bringing OCA's total appropriated operating budget to \$532,496-of which \$471,296 was for staff salaries and \$61,200 for office operations and equipment. However, delays in securing additional office space for the four new positions hampered our ability to fill the positions in a timely manner. As a result of these delays, unspent appropriations of approximately \$118,687 was returned back to the City treasury at the end of the fiscal year.

OCA FY2004-05 APPLICATION OF RESOURCES

